

Day to Day Management of Public Funds

Day to Day Management of Public Funds and Investment Reports

- Statutory Provisions
- Investment Policy
- Cash Flow Analysis
- Reporting and Management Information
- Daily Activities of Investing

Statutory Provisions

- Government Code Sections
- 27000 et. Seq. (Pertains to County Treasurers)
 - 27000.1: Delegation of Authority to invest (County Treasurers)
 - 27000.3: Fiduciary and Prudent Investor Standard
 - 27000.5: Primary Objectives: principal protection, liquidity and yield
 - 27011: Prohibition against private money in county treasury, criminal penalty & loss of office
 - 27131: County Treasury Oversight Committee
- 53600 et. Seq.
 - 53600.3: Fiduciary and Prudent Investor Standard
 - 53600.5: Primary Objectives: principal protection, liquidity and yield
 - 53601 and 53635: Permitted Investments
 - 53601.5: Authorized sellers of investments
 - 53601.6: Specific investment prohibitions
 - 53601.7: Specified investment prohibitions
 - 53607: Delegation of authority to invest (all agencies)
 - 53646: Investment Policy and Quarterly Reporting Requirements

Investment Policy

- Is it updated?
- Does it have a current approval from the proper authority?
 - Board of Supervisors for County Treasurers
 - All other local agencies submit Investment Policy to the legislative body for consideration.

Ready to Invest

- Overnight investing
 - Previous Day Bank Report
 - Treasury Report of expected receipts and disbursements: wires in/out, bond payments, state money, etc.
 - Calculate the amount available to invest based on known transactions and balance estimates.

Determining Bank Balances

- Average Daily Ledger Balance
- Reserve Requirement
- Average Daily Float
- Average Daily Collected or Available Balance
- Earnings Allowance
- Compensating Balance
- Determine if you will target balances to pay by compensating balances or direct charge.

Determining Bank Balances

- **Average Daily Ledger Balance:** Banks ledger balance that includes both available and unavailable funds. The average is based on the number of days in the month.
- **Reserve Requirement:** The percentage amount of deposits to be held at the Fed. Determined by the Federal Reserve Board for all banks by deposit type. Used to control monetary policy.

Determining Bank Balances

- **Average Daily Float:** Estimated from the bank's ledger balance by averaging the total amount of checks not available for use by the depositor on a daily basis for the month. Affected by market share, mergers/acquisitions, change in primary bank, etc. Subject to change over time. Should be reviewed periodically, especially after events affecting market share or a change in primary banks.

Determining Bank Balances

- **Average Daily Collected or Available Balance:**
The portion of the bank's ledger balance that is available for use (balance less float) on a daily basis, averaged for the month.
- **Earnings Allowance:** The interest rate used to in the calculation to compute earnings on bank balances used to offset service/activity charges.

Determining Bank Balances

- **Compensating Balance:**

$$\frac{\text{Monthly Service Charges} \div (1 - \text{Reserve Requirement})}{\text{Earnings Allowance } (i\%)}$$

Note: the current Federal Reserve Requirement is .10

Overdraft charges are usually charged at premium to a specified index such as prime rate.

Determining the Amount Available for Investment

- Factor the following items:
 - Known transactions with 0 float
 - Known transactions with float calculations applied.
 - Policy regarding payment by compensating balances/direct payment.*
 - Policy regarding account overdraft.*
 - These two policies will determine how much of a buffer that you leave in the account to cushion transaction and float estimates.
 - Consider short-term cash flow needs.

Making the Investment

- Always remember you are in control
 - Keep it competitive
 - Use a competitive bidding method (call 3 brokers each time, etc.)
 - If you have a small portfolio, don't spread your account too thin
 - Work quickly, deals don't last
 - Don't be afraid to bargain a trade back. But not between brokers*
 - Be a favorite client, make your account worthwhile
 - Give feedback to your brokers after the trade
 - Let them know their cover, it helps your broker stay competitive*
- *not so applicable for overnight investing

Following Up the Trade

- Your broker will immediately send a written confirmation of your trade by Bloomberg, internet email or fax.
- Verify your trade from this confirmation. Discrepancies should be immediately communicated to your broker and resolved.
- Report the trade to your safekeeping account representative. (third party escrow and custody).
- Update your portfolio management and reporting system.

Day to Day Investment Maintenance

- Keep all reporting and information systems updated for legal and management purposes.
- Establish strong internal controls.
- Maintain records that show clear audit trails.
- Audit your own records. Know that they are correct and in order.

Ongoing Investment Monitoring

- Surveillance of individual investments.
- News and information (mostly from brokers and financial news media).
- Credit ratings.
- Have policies, procedures and plans in place for addressing events and ratings changes.

Final Comments

- Never invest in anything that you don't understand. The test for understanding is can you explain the investment and why you bought it....to your boss, your board, a journalist, the grand jury, a judge.
- Always remember your cash flow needs. You have a cash flow crises if you invested money that is needed in three days for seven days.

Investing Public Funds

Fundamentals of
Managing Your Portfolio

Fundamentals

- Investment Policy
 - Internal Generated Policy
 - Advisory Committee (IAC)
 - Annual Review for State Govt Code Changes
- Internal Guidelines
- Cash Flow Requirements
- Economic Conditions & Outlook
- Your Agency's Risk Profile
- Portfolio Management Strategy

Investment Policy/Guidelines

- Investment Policy (Hard)
 - CA Gov Code 53601 et al
 - Local Agency's policies
 - General Risk parameters
- Internal Guidelines (Flexible)
 - Limits % of Callable Agencies
 - Credit Risk Mitigation Measures
 - Limits % of Issue
 - Limit Issuer Names (temporary)

Cash Flow Requirements

- Projections to 18 months
- Updated Daily
- Forecasts 3-4 times/yr
- Historical Comparisons
 - Projected vs Actual Current FY
 - Actual vs Prior FY
- Cash Flow Analysis
 - Expenditures/Revenues

Economic Conditions/Outlook

- Economic Indicators
 - Employment
 - Fed Biege Book
 - Retail Sales
 - Consumer Sentiment
 - Stock Market
- Economists Forecasts
- WSJ/Economist
- Yield Curve/ Futures Mkt
- Internal Discussions & Mtgs
- Broker Feedback

Local Agency Risk Profile

- Political Risk
- Market (Yield Curve) Risk
- Credit Risk
- Liquidity Risk
- Sector Risk
- Duration Risk

Managing Risk

- Credit Risk
 - Stock Price, WSJ, Economist, Bloomberg, Broker Info
- Market Risk
 - Change in rates
- Liquidity Risk
 - Size of Issuance
 - Call Feature
- Sector Risk
 - Agency/Corporate Note
- Duration Risk
 - Macaulay/Modified/Effective

Duration

- Macaulay-weighted avg maturity of bond cash flows
 - Modified- Dividing Macaulay duration by one plus the yield
 - Effective— similar to modified, but explicitly recognizes that the cash flows to a bond with an embedded option will change as the yield changes.
- ∞ Effective duration is the most accurate measure of price change for a bond with an embedded option
- * For an option free bond Modified & Effective Duration measures result in the same number.

Portfolio Management Strategy

- Passive
 - Buy & Hold
 - Laddered
 - Cash Flow Matched
 - Money Market Fund
- Active
 - Yield Curve Analysis
 - Spread Analysis
 - Credit Analysis
 - Total Return
- Hybrid (City of San Diego)
 - Liquidity Portfolio (MMKT)
 - Core Total Return Portfolio

Security/Portfolio Analysis & Monitoring Tools

- Bloomberg
 - Security to Security
 - Spread Analysis
 - OAS Analysis
- CMS-BondEdge
 - Portfolio Performance & Attribution Analysis
 - Portfolio Simulations- Interest Rate Changes(Parallel/Non-Parallel shifts
 - Portfolio Simulations- Using Investment Alternatives

Added Value -Security Selection*

- Term Premium- 14mos vs 13mos
- Liquidity Premium- Active vs off-the-run
- Volatility Premium- Callables
- Credit Premium- AAA vs split rated

* www.pimco.com

Securities Clearance

- Avoid Failed Trades(DKs)
- Contractual Settlement-Varies
- Clearance Deadlines- Broker-Broker, Bank-Broker,etc
- Communications-Custody Bank/Broker/U
- Negotiate

Q & A

- Any Questions???
- Any Comments/Suggested Changes to Presentation?
- Thank You for Attending!!